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## Privatization in the U.S. Navy

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PRIVATIZATION IN THE U.S. NAVY

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BY

STUART E. PERRITT

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A REPORT PRESENTED TO THE GRADUATE COMMITTEE  
OF THE DEPARTMENT OF CIVIL ENGINEERING IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF MASTER OF ENGINEERING

UNIVERSITY OF FLORIDA

SUMMER 1990

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# PRIVATIZATION IN THE U.S. NAVY

BY

STUART E. PERRITT

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Dedication:

To my wife Karen, and my sons Tevor and  
Nicholas. They considered the subject duller than  
dirt but endured.

## Acknowledgements:

Completion of this report would not have been possible without the guidance and assistance of my graduate committee chairman, Dr. Ralph Ellis, and my committee members, Dr. Ron Cook and Dr. Zohar Herbsman. I must also recognize the invaluable assistance rendered by Ms. Candice Cane of the Naval Facilities Engineering Command. Financial support by the U.S. Navy, specifically the Naval Facilities Engineering Command is also gratefully acknowledged.

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## CHAPTER ONE

### INTRODUCTION

Government is usually formed to provide for the health, safety, and welfare of its constituents. It must decide which services are to be provided such as defense or education and then it must decide how to provide these services. It provides services for the public welfare that are either too large in scale or too costly for the individual to provide. The key considerations of whether the government should be involved in providing a service are that the benefits and the costs are shared by the public. These services can be provided by the Federal, State, County, or Municipal governments.

The matrix shown in figure 1-1 illustrates in simplistic form the choices generated by the two variables, financing and delivery. Financing is the question of whether the individual should pay for a service or should the government pay through the collection of taxes?

Delivery is a question of should the government provide a service or should delivery be made by the private sector?

	Collective Payment	Individual Payment
Public Sector Delivery	A	B
Private Sector Delivery	C	D

Figure: 1-1

The quadrant labeled A in figure 1-1 is what most people consider government. It covers the public sector delivery and the public sector payment. Typical services in this area include the national defense and generally the executive branch of government.



The quadrant labeled B, is one of public delivery and private payment. It is not the most widely used arrangement but the best example is the Postal Service. The postal service is a public provider of mail services and it collects its payment from the individuals which use the service. The space shuttle program for the National Aeronautics and Space Administration was also planned as this type of venture. Private concerns that wanted satellites launched would pay for the service and in turn pay for the shuttle development.

Quadrant C is the area of private delivery and collective payment. This would include all of the weapon systems that the Pentagon procures as well as all of the commercial goods purchased by the public sector. It amounts to approximately half of the total public expenditure.

Quadrant D in figure 1-1 is the typical private sector enterprises. They are financed and delivered by private concerns and the government does not get involved.

As stated previously, the matrix shown in figure 1-1 is a simplistic view of the choices between public and private enterprises. In actuality, the distinctions are a lot less exact.

Generally the trend of privatization would be from quadrant A to quadrant D. In other words, the public sector would get smaller as the private sector gets larger. In some countries this is the main thrust but

privatization in the United States has focused on moving functions out of the A quadrant to B, C, or D quadrants. There are some items that should remain in quadrant A such as the national defense, foreign relations by the State Department, and internal security like the Federal Bureau of Investigation. However, there are many functions that could be moved to the other quadrants such as printing and housing of government employees.

The subject of this report is privatization; what is it, how the Federal government, specifically the Navy Department, is approaching it, what are the criteria for a function or service to be privatized, and finally how to tell if the privatization is successful?

Privatization has many meanings depending on the context. In Europe it generally refers to the transfer of government owned businesses to the private sector. For example, in the last decade the British government has sold to private investors the following companies: British Airways, Rolls Royce, Jaguar, British Telecommunications, and British Petroleum to name a few<sup>1</sup>. In the United States, it commonly applies to having the private sector deliver services with the government involved in collecting and disbursing the cost of the service. For purposes of this report, privatization is defined as "the practice of delegating public duties to private organizations."<sup>2</sup> This is essentially moving a function from quadrant A to quadrant C as shown in figure 1-1.

Chapter two addresses the current Federal government policy and explores the limitations and opportunities privatization presents to the Department of Defense, specifically the Navy Department. In chapter three, the alternatives for the delivery of the services specific to the Navy Department are explored and examples are discussed.

The criteria for selection of the best delivery option are discussed in chapter four. Chapter five then discusses the typical origination sequence for a Navy public/private venture.

Chapter six explores the performance evaluation of the delivery option chosen. This is a crucial step because the complexity of the services being provided and the number of participants in the system make it difficult to tell sometimes if the delivery option is satisfactory or not.

Chapter seven is the last section and it has the conclusions drawn from the material presented and recommendations for further action.

## CHAPTER TWO

### FEDERAL GOVERNMENT POLICY

To understand the position of the Federal government with respect to privatization, a historical perspective is needed. The founders of the United States can be described as a fairly independent group of businessman and farmers who disliked big government. Excessive taxation and control from England were some of the main reasons they were seeking independence. Even after independence was won from England, it took eight years for the states to agree to drop the Articles of Confederation which held the individual state above the federal government and select a strong central government.

As this young government started to provide services to the people, several philosophies were employed and are still in use today. One of these philosophies is the idea that the taxpayer's money should not be wasted but should be used in the most efficient means possible. This concept has been overlooked sometimes in the past but the checks

and balances in our governmental system and frequent elections injects some accountability.

Another philosophy is that government would not compete with the private sector. If a product or service was available in the private sector then it would be procured there. This idea was stated in a Bureau of Budget Bulletin in 1955. The successor agency, the Office of Management and Budget, restated it in Circular A-76. Circular A-76 was issued in the late sixties and its purpose was to identify functions that were being performed with government forces and available in the commercial sector to be contracted out.

The Department of Defense including the Navy Department was slow to implement Circular A-76. When President Reagan took office, he mandated that the executive branch of government start to implement the intent of the Circular A-76.<sup>3</sup> This new program was identified as the Commercial Activities program. Quotas were set for the services to comply with in all areas that could not be defined as "inherently governmental".

Almost all of the functions that were the focus of Circular A-76 were set up as a competition between government forces that currently performed the function and private contractors. A Statement of Work

which described the work quality and quantity was put in specification form and put out to bid. If the government forces had the low bid then the function was not bid again for five years. If a contractor won the bid, the government personnel were laid off. They could apply to work for the contractor and the employees that could not transfer to another civil service job usually did. The program was structured to force the issue of privatization.

Typical functions that were competed were transportation, custodial, pest control, maintenance, and grounds maintenance. From my personal experience, the program did reduce the cost of government but the reductions were somewhat offset by loosely written contracts that when corrected, added some of the cost back in. What it also did in a practical sense was to shift the expense out of the personnel area and into the contract administration area. The original statements of work that were bid were not always the most accurate description of the work because the Navy facilities managers did not have a preponderance of expertise to write and administrate service contracts. The focus of the training and the work experience in the Civil Engineer Corps was construction contracting. As a result, some of the savings were quickly eaten up by more accurate specifications when the contract was rebid.

The Naval Facilities Engineering Command as a result of the surge of facility support contracts, set up training programs and got smarter over a several year period. This trend toward contracting for

services has had the effect of shifting the Civil Engineer Corps from management of Civil Service workers to contract administration. Governmental supervision and control are still required for these services to safeguard the public's interests.

The commercial activities program actually had a narrow focus when it gave available options. A function either stayed with government forces or went under contract to a private firm. There are a host of other regulations and laws to give guidance to more exotic privatization efforts. I will focus on four principle laws that have opened the door to the more creative efforts. These laws are shown in figure 2-1.

The first law is 10 USC 2667 and is titled, Leases: non-excess property. It permits the outleasing of land, which is not excess to the government's needs, in promoting the national defense or the public interest. If the land is excess, another disposal process would be set in motion to offer it to other agencies or auction it to the public. This law allows a Navy activity to enter into a partnership with a private concern where the land can be used as the government's input to the agreement to provide some service.

LEGISLATION	DESCRIPTION	APPLICABILITY
10 USC 2809	Test of Long-Term Facilities Contract	Child Care. Utilities. Housing. Medical Facilities.
10 USC 2812	Lease-Purchase of Facilities	Administrative. Troop Housing. Utilities. Medical. Transient Quarters. Storage, and Child Care facilities.
10 USC 2667	Leases: Non- Excess Property	Any Public/Private venture.
10 USC 2828 (Section 801)	Build To Lease Program	Military Housing.
10 USC 2821 (Section 802)	Housing Rental Guarantee Program	Military Housing.
Non-Appropriated Fund Concession Contracting Authority	Service Concessions	Morale. Welfare. and Recreation Activities.



Special Legislation	As Needed for Public/Private Venture	As Needed for Public/Private Venture
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Figure 2-1

An example of this is the provision of quarters for transient military quarters on an activity where a long term lease for the land was provided to the developer. Land acquisition is a major expense for the developer and this law allows the Navy to bring this non-cash asset to the table.

The next law is 10 USC 2809 and is titled. Test of long-term facilities contracts. The focus of this law is to allow the long-term contract for construction, management, and operation of facilities on or near military installations for specific activities and services, up to 32 years. It is to be used in situations where the facilities can be more efficiently and more economically provided under long-term contracts than by other appropriate means. Competition is still required and the contract must have a clause stating that each year's funding is subject to availability of appropriations for that purpose.

The activities and services that this law can be used for include child care services, potable and wastewater treatment, depot-level

supply activities, troop housing, transient housing, medical facilities, and other logistics and administrative services.

The third legislative authority is 10 USC 2821 and is titled, Requirements for the authorization of appropriations for construction and acquisition of military family housing.. A section called the Military housing rental guarantee program, permits the military to enter into agreements for rental housing for a period not to exceed 25 years. The provider can be a private developer or a housing authority.

In this program the military member will pay the rent and the military will guarantee a minimum occupancy level. The maximum rate charged for each unit will be scaled commensurate with the local rents. Child care facilities and community service centers can be included. The developer operates and maintains the facility. If the facility is not maintained properly, the agreement with its guarantee can be revoked.

This law allows the military to bring a stable market for housing to the table and reduce the developer's risk by guaranteeing an occupancy rate. Before a military activity can utilize this law, there must be a validated deficit of military housing within commuting distance of the activity.

The fourth law is 10 USC 2828. It is titled, Leasing of military family housing. Section (g) of this law permits contracts for the lease of family housing units for a period of up to 20 years. Other facilities such as child care and community centers that support family housing can be included. Building and grounds maintenance services can be included also.

In this program, the developer builds the units of housing on or near the base and the military leases them with a long-term agreement. The units are then assigned to military families that are eligible for housing. No rental charge is levied on the military family except the forfeiture of the housing allowance. The units have to be constructed to Department of Defense specifications and at the termination of the lease the government has the right of first refusal to acquire all right, title, and interest to the housing facilities constructed and leased under the contract. The developer is given a guaranteed price per year for up to 20 years and then if he has properly maintained the facilities he can sell it to the government or another interest at fair market value.

This program was recently used in Yorktown, Virginia to provide several hundred units of housing for the Navy.

Fifth in the table is the Non-appropriated fund concession contracting authority. This authority allows the non-appropriated fund

manager to enter into agreements with concessionaires to provide services on the government premises and return a percentage to the activity. Traditionally this authority has been used to provide services such as florists, dry cleaners, and recently fast food franchises have been allowed to participate. It is flexible and should not be overlooked when a service is to be provided.

The five legislative authorities described are examples of concessions put into law to assist in general privatization actions. In their absence, the military construction process must be utilized. In the military construction process, the projects would compete with urgently needed operational facilities and generally lose. If a public/private venture can be used to provide the needed service or facility, it not only reduces the need for scarce government dollars but also helps the local economy.

On occasion, a public/private venture will need special legislation to bypass some of the bureaucracy. This is the last type of legislation listed in figure 2-1. It can be obtained on a case by case basis through coordination with the local government and their legislators. One such project that required special legislation is the Navy Broadway Complex Project in San Diego, California.

Legislation was passed in 1986 as part of the National Defense Authorization Act for Fiscal Year 1987. Section 2732 specifically dealt

with the Navy Broadway Complex Project and is titled; Lease and development of certain real property, San Diego, California.

The main tenets of the law are contained in subparagraphs (a),(b),and (c). Subparagraph (a) gives the intent of the law and it is twofold. The Navy is permitted to enter into long-term leases with the property at the Broadway Complex. This authority was not that unique as previously passed legislation already allowed this. The second item is that the Navy is permitted to assist the lessee of the property in the financing of construction of any facilities on the property. This was monumental because it gave latitude to the Navy to get the best arrangement possible without specifying a building type or a specific size.

Subparagraph (b) states that in consideration for leasing the property, the Navy can obtain, without compensation or substantially below market value, facilities or the use of such facilities, or both, constructed on the property by the lessees. The flexibility was left in the law to make a workable agreement.

In subparagraph (c), the conditions for approval are described. The first condition is that the agreement and subsequent development have the consensus of the San Diego community. Specifically, the San Diego Association of Government's Broadway Complex Coordinating

Group is the body that the Navy is a member of and is coordinating with. The second condition is that the final agreement must be approved by Congress. The Navy has to indicate why the chosen development is more advantageous than Federal development.

This legislation is crucial to the whole project and is the direct result of intensive coordination by the Navy with the local community. The Navy has used the authority to conduct market studies, site surveys, extensive community planning effort, and drafted an environmental impact statement for the site. It allowed the Navy to contribute money to a cooperative study of the Broadway complex with the local government entities without restricting the type of structure that the Navy would get as a result. The result was that the Navy was able to do extensive planning and market studies and positively contribute to the regional planning and development.

Although not a very rapid process because of the number of players involved, the Broadway Complex Project is a good example of identifying a need, and coordinating with the local community to get the legislation passed that had the flexibility needed to get the best possible arrangement for all concerned.

In summary, for the public sector to take advantage of its non-cash assets in a privatization effort, the authorization must be in place

and some changes in the laws and regulations may be necessary.  
Flexibility in the legislative guidance is the essence of this need.

## CHAPTER THREE

### OPTIONS FOR ALTERNATIVE DELIVERY

The delivery of public services is a very complex issue. Because of this complexity, there are a variety of delivery options to efficiently provide these services. The principle delivery options are contracting, franchising, subsidies, incentives, vouchers, volunteers, and load shedding. In figure 1-1, this involves a shift from quadrant A to quadrants B, C, and D.

Selection of the appropriate option depends on a variety of factors. The four main ones are efficiency, equity, participation, and accountability.<sup>4</sup>

Efficiency can be defined as the use of limited resources to maximize the total welfare.<sup>5</sup> It is also the minimizing the cost of funding, producing, using, and controlling a program. Cost is the central issue and care must be taken to include all of the cost of delivery to make a fair comparison. An indirect issue that effects cost is the amount of competition in the marketplace for the service. The refuse collection



industry is a prime example of adequate competition keeping the costs of delivery down. An example of limited competition is cable television. There are usually only one or two competing firms and costs have to be monitored more closely.

Equity is the concept of who will benefit from the service and to what degree. Government has the obligation to ensure that none of its citizens is any worse off than before the action. An equity ratio can be defined as the number of people benefiting from the service divided by the maximum number of people that could benefit from the service. The higher this ratio, the more equitable the alternative.

Participation is often overlooked as a selection criteria. For some of the alternatives the need for end user participation is extremely important to get the proper level of service for a price that is acceptable. Self-service or use of volunteers are examples of alternatives that have a high need for participation. Other alternatives such as franchises do not need extensive participation in the selection of the alternative because the services are fairly standard.

Accountability is a factor that is applied after the service is rendered. For the contract alternative, the accountability is to properly define the service being obtained and then ensuring the service is actually performed. The other end of the spectrum is the self-help option which requires very little accountability.

There are functions and services in any organization that should not be transferred. These services are primarily policy formulation and management. Assuming that the Department of the Navy does not

want to totally transfer any of its services to the private sector; the specific focus narrows to the alternate delivery options that for the most part put delivery in private hands and keep the collection and payment in the hands of the government.

### 3.1 Contracting

By far the most popular alternative is to perform the service by contract. Contracting out a function should be contemplated under the following conditions: there is a need to reduce costs, there are assets available to monitor the contract performance, when complex or technical services are needed, to avoid management and policy constraints, or when services must be provided rapidly. Contracting should not be done to disguise service cuts as cost savings, when there is strong employee resistance, or when the service is an emergency service.<sup>6</sup> If a service can be quantified than it can be procured by contract.

Where accurate cost data has been kept, the majority of contracted functions have saved money from the in-house performance. The savings vary with the function, location, amount of labor involved, equipment required, and other factors. Private contractors can usually provide a service cheaper than government for several reasons. One is that there are no start up costs for the government. The contractor can also achieve economies of scale because he is not usually limited by jurisdictional boundaries and can spread his costs over a wider service area. Use of the labor force is probably the biggest factors because

successful contractors typically used less labor, have about 5% less absenteeism, use more temporary labor, terminate more employees which probably relates to less absenteeism, and made managers responsible for equipment as well as the labor.

Contractors also have an advantage in that they can adapt to new technologies quicker than the public sector and often employ the latest technology to aid efficiency. They are also quicker to make capital investments to improve the service. One example is in the refuse collection service, relatively small companies are working with equipment manufacturers to improve the equipment.<sup>7</sup>

"You get what you inspect" is probably the most prophetic axiom in contracting. Monitoring the contract performance is as crucial to the proper delivery and the stewardship of the taxpayer's dollars. The service must first have measurable performance standards. Then manpower must be dedicated to the management and inspection of the contract. The same people who performed the service in the public sector may not be the right people to inspect the contract performance. It is incongruous to many people that someone who could not perform the service could be qualified to inspect it but this is quite often the case. An example of this is the monitoring of drug and alcohol clinics or hospital operation programs. Management can not be overlooked either. The contract needs to be structured properly and changes in the level of service or decreasing quality or effectiveness must be addressed in a timely manner.

The procurement of technical or professional services is one of the most popular services to contract. One reason is that it would not be feasible to expand the public staff to get services that are needed infrequently or are so scarce that the public sector could not afford to have an in-house capability. An example of professional services is design services for a building. An example of a service that would not be feasible to capitalize would be data processing. If the requirement is either short term or a seasonal workload increase that is beyond the in-house resources to cope with then contracting out would be a viable option.

Another reason to contract out a function is to take advantage of technological advances that would be difficult to capitalize in a tight fiscal environment. For example, computer aided design is a great method of recording a design that can easily and accurately show revisions and as built conditions. Purchasing the hardware and training in-house engineers to use the equipment is a formidable expenditure for a limited budget. The in-house engineers are usually tasked with many other duties which tend to reduce their time and therefore their skill level with the equipment. Architects in the private sector can specialize and spread the cost over a wider base. The result is that they can offer the service to the government cheaper than it can be produced in-house.

Another major reason to contract is to avoid management and policy constraints. If the focus on the government managers is on policy making rather than program management then contracting is a better option. The reason is that as the workload becomes greater then the time spent on personnel management and everyday trivia is much

greater than if the work is contracted out. Having a large staff also means large overhead in the form of offices fringe benefits, hiring, firing, payroll, and the people to manage them. The effort for monitoring should be factored in for an equitable comparison. Large staffs also restrict the flexibility of the organization. Civil Service in the federal sector is a prime example of the difficulty in making major changes in personnel policy. If something needs to be changed in the delivery of a service then the contract is changed or revised for the next bid. Some of the fiscal policies can be avoided by contracting. An example could be the deficit of prison space. If the local governing body can not appropriate funds for a new jail, the private sector could build a facility and rent or lease it to the governing body and satisfy legal judgements that are pending in many locations.

There are negative aspects to contracting also. For some services the cost of in-house performance is actually less than the contract performance. Because of this the government manager should ascertain the benefits and costs of each alternative. Another common failing is to underestimate the cost to monitor and coordinate the contract effort. This almost ensures poor contract performance and customer dissatisfaction.

Strong employee opposition can doom a contract effort to fail if it results in strike or political pressure on elected officials who will succumb to the pressure and cancel the contract. An idea that is used in many locations is to give the employees a chance to increase productivity and lower costs or compete with the contractors for the

work. The early involvement of the persons who are most likely to be displaced by the contract action will save a lot of animosity later.

There is also strong evidence that emergency services should not be contracted out. Police and fire services are the best examples of this and the prime reason is that these services are the jurisdictional reason that governments exist for. The scope of response and the variable working conditions make the description of services difficult which makes it a poor service to contract. However, some parts of the function such as paramedic services, data processing, and communications have been successfully contracted.

With respect to the military, contracting is limited to provision of supplies, consultation by specialists, some training, and various support services. The national defense role has not been contracted which reflects more of the national policy than contract ability.

### 3.2 Franchising

Franchising or concessions can be defined as the exclusive or non-exclusive rights of private firms to deliver a public service within a specified geographical region. Cable television and utilities are the best examples. The common thread is that the consumer pays directly to the franchiser and usually defines the level of service. Franchises and concessions are more limiting than contracts because the user must be identifiable so that he can pay for the service. The level of service of each customer must also be measurable so that the fee can be accurately charged. The high cost of capitalizing these services merits some exclusivity but the lack of competition takes away a

lot of the motivation to keep the price down. Antitrust proceedings have been initiated in some locales as a result of the exclusivity of the franchise agreements. This just further enforces the need for competition to let the market determine the best price for the service.

### 3.3 Subsidies

Subsidies occur when "governments make financial or in-kind contributions to private organizations or individuals to encourage the delivery of public services at a reduced cost to consumers".<sup>8</sup> These subsidies are usually made to some service that is not commercially viable or charitable and is seen to deliver a public service that improves the quality of life. The best examples are on the local level with contributions to the arts, daycare centers, youth recreation organizations and the like. There is not very much accountability to the governing body and the service is generally acknowledged but not carefully monitored. In many cases it is seen as more effective than performing the service with public assets.

### 3.4 Incentives

Incentives are probably the least used of the alternatives and consists of regulatory measures to reward actions or behaviors that are in the public interest. The best examples are tax incentives or zoning exemptions. Incentives are not seen as effective in generating the intended behavior by themselves. They have a purpose though in

public/private ventures where a non-cash asset may be a tax incentive or a zoning approval.

### 3.5 Vouchers

Vouchers are coupons or tickets with monetary value that the government gives the citizen to offset the cost of a service. The government pays for the voucher but the individual selects the deliverer of the service. For this system to work well, multiple providers are needed, the service must be readily available, the individual must be informed well enough to make a choice, and the service can be defined to the extent that the proper payment can be made. An example of this system is the transit system for senior and handicapped citizens.

One of the drawbacks is that the level of usage is difficult to predict and it may not provide any real cost savings.

### 3.6 Volunteers

Volunteers are a large usage alternative principally on the local level. There are many situations where a public service is provided by trained or even untrained volunteers such as fire departments, libraries, art facilities, and recreation. The cost is minimal and is limited only by the imagination of the government. They usually will need supervision and some training but can be a great asset in keeping costs of services down.

The military makes use of volunteers mainly in the family support, recreation, and hospitals. The family support is especially important



because the military member is absent quite often and the spouse and children may need budget counseling, short term financial assistance, or daycare .

## CHAPTER FOUR

### CRITERIA FOR SELECTION OF ALTERNATIVES

The motives that initiate a privatization action play a large role in determining the criteria used for selection of the alternative. There are several generally accepted factors that motivate a privatization action and they are: regulation of the governing body, a need that is identifiable but not sufficiently met by existing means, and productivity or financial problems with the present service. These factors influence the criteria for selection of the best alternative and are discussed in more detail in the following paragraphs.

Regulation is the prime motivator in the commercial activities program because it is sponsored by Executive Order in the form of the OMB Circular A-76. The criteria is primarily cost or efficiency. Other factors such as level of service or response time could be used to augment but were usually expressed in terms of cost.

The second influence factor is a need that is identifiable but not met sufficiently by conventional means. Cost or efficiency is a criteria for this factor but more important is the provision of the needed service

at a desired quality level. To have the service provided by a private party at a cost savings from government workers, the service must be commercially available with some level of competition. An example of this is a recent privatization action by the Navy to provide two 150 room bachelor officer quarters in Groton, Connecticut, and Newport, Rhode Island. The cost criteria was that the service be provided at a maximum allowable room rate of \$45 per night. Of equal consideration was the level of service, the quickness of the initial delivery of the structures, and the minimal involvement of the Navy in constructing or operating the facilities. There was no shortage of bidders because the provision of hotel like commercial construction and management was available in sufficient quantities in the local economy.

Third and last is a productivity or financial problem with the present service. Although cost is still a criteria, it may be the type of costs such as capital needed to refurbish an industrial function that is not in the foreseeable budget or reductions in the civil service labor force may reduce the number of workers in a function so that it is no longer efficient to perform the function in-house. The best example for the capital improvement situation is a government owned and operated water or sewage treatment plant that is inefficient and will not meet modern effluent standards. The government's choice is to issue bonds and raise taxes or fees to build and operate a new treatment facility or let a private party build and operate the facility. If the private party is allowed to build the facility, the government could reach an agreement to not contribute to the capital cost of building the facility but guarantee

payment for the treatment for an extended time to allow the investor to make a reasonable rate of return.

There are also situations where the impetus to start looking at a privatization action can come from other sources. The Navy's Broadway Complex Project was initiated by a consultant who was assisting the Navy with the Master Plan for the San Diego, California bases. There was a need for administrative space but the need was being met by facilities of various ages and conditions which were scattered over a broad area. The consultant was also involved with the city planning efforts and realized that the Navy had a very valuable property on the waterfront and could possibly get some administrative space in exchange for a long-term lease on the rest of the property. The merits of the idea were so strong that the Navy set up a dedicated group to pursue the venture.

The above listed factors provide the impetus for the privatization action and determine to a large part which criteria will be used in the selection of the proper alternative. The actual selection criteria can be identified in two major areas, cost or efficiency and effectiveness.

#### 4.1 Efficiency

Efficiency is the major criteria for selection of most alternatives. It can be defined as the cost to provide a specified level of service. The units can be a lump sum for a range of services or unit prices for specific items. For the waste treatment facility the cost could be defined as the cost per gallon or cubic foot of water treated. Or, in the case of

the two bachelor officer's quarters, the cost could be expressed as a maximum allowable room rate per night.

Care must be taken in the government and other large organizations to capture all of the costs associated with a service when attempting to compare costs with another alternative. For the Federal government, the method of economic comparison is the OMB Circular A-104.<sup>9</sup> This regulation applies to almost all of the privatization actions and requires a life cycle cost approach to determine the net present value costs of all of the alternatives. For the actions that do not require a formal A-104 analysis, a cost comparison should still be done to compare the life cycle costs of the various alternatives.

A pro-forma analysis may also be required to document the financial feasibility of the project under consideration, particularly when dealing with a public/private venture where the government is attempting to have private parties invest in the public sector. The analysis usually includes market studies and involves the development of a pro-forma income and expense statement for the duration of time under consideration. It also defines the user's price structure which allows the investor to realize a competitive rate of return. For the Navy, the development of the pro-forma analysis will require expertise in the private sector financial techniques and will provide insight into the risks that the private investor has to consider. This increased awareness can influence the type of contract, tax considerations, and structuring of the project before it is advertised to the public. An example is the Navy's Broadway Complex Project which retained a consultant to do market studies that considered all of the variables including local zoning.

development interest in the area, market value of the property, and local tax and investment incentives. This analysis stated that the Navy could get, at no cost or significantly below market value, approximately one million square feet of office space for a long term lease on the remaining property.<sup>10</sup> The Navy then committed money and people to the project and also gave authority to enter into a memorandum of understanding with the city of San Diego to coordinate the development of the property. Coordination with the local government for this project is essential because any development will have to comply with the local land use planning as well as impact the utilities, transportation facilities, and the appearance of the waterfront area for the city. It also adds value to the process because the city is promoting the project in it's downtown redevelopment program and giving it a lot of free advertisement.

#### 4.2 Efficiency

Effectiveness is the second major criteria and it includes a variety of factors that cumulatively relate to the customers satisfaction with the service. It is understood that the quality level of the service must be as good as what was previously provided and if it is a new service, it must meet the minimum standards of the contract.

Another consideration is the impact on other services. Is equipment shared? Are emergency services to be provided and do they have to be coordinated with other assets? These issues can be major problems if not adequately addressed before the contract is awarded.

The potential for service disruption should also be considered. Vital emergency services are not usually delivered by the private sector

because of this factor. Other services such as garbage collection may not be considered emergencies but the disruption of services may cause widespread customer dissatisfaction. Some of the problems of an extended disruption of service are is there anyone else who can or will perform the service in the interim, and how long can the disruption be tolerated.

Although there are many different criteria to evaluate the myriad of services that can be delivered by the private sector, the two basic criteria that are common to almost all are efficiency and effectiveness. In a later chapter the evaluation of the performance will be discussed and it is generally based on the same criteria on which the alternative was chosen.

## CHAPTER FIVE

### TYPICAL ORIGINATION SEQUENCE

Given the variety of services that can be the focus of a privatization effort, there is a corresponding range of diversity in the sequence of development of these projects. There are however, certain basic steps that are common to most of the privatization efforts in the Navy. Figure 5-1 shows these twenty steps in a flowchart format. The process can be further simplified into four major phases which are planning, feasibility, solicitation, and execution. Most of the information in this chapter is drawn from the draft version of the Naval Facilities Engineering Command's Public/Private Venture Guidebook.



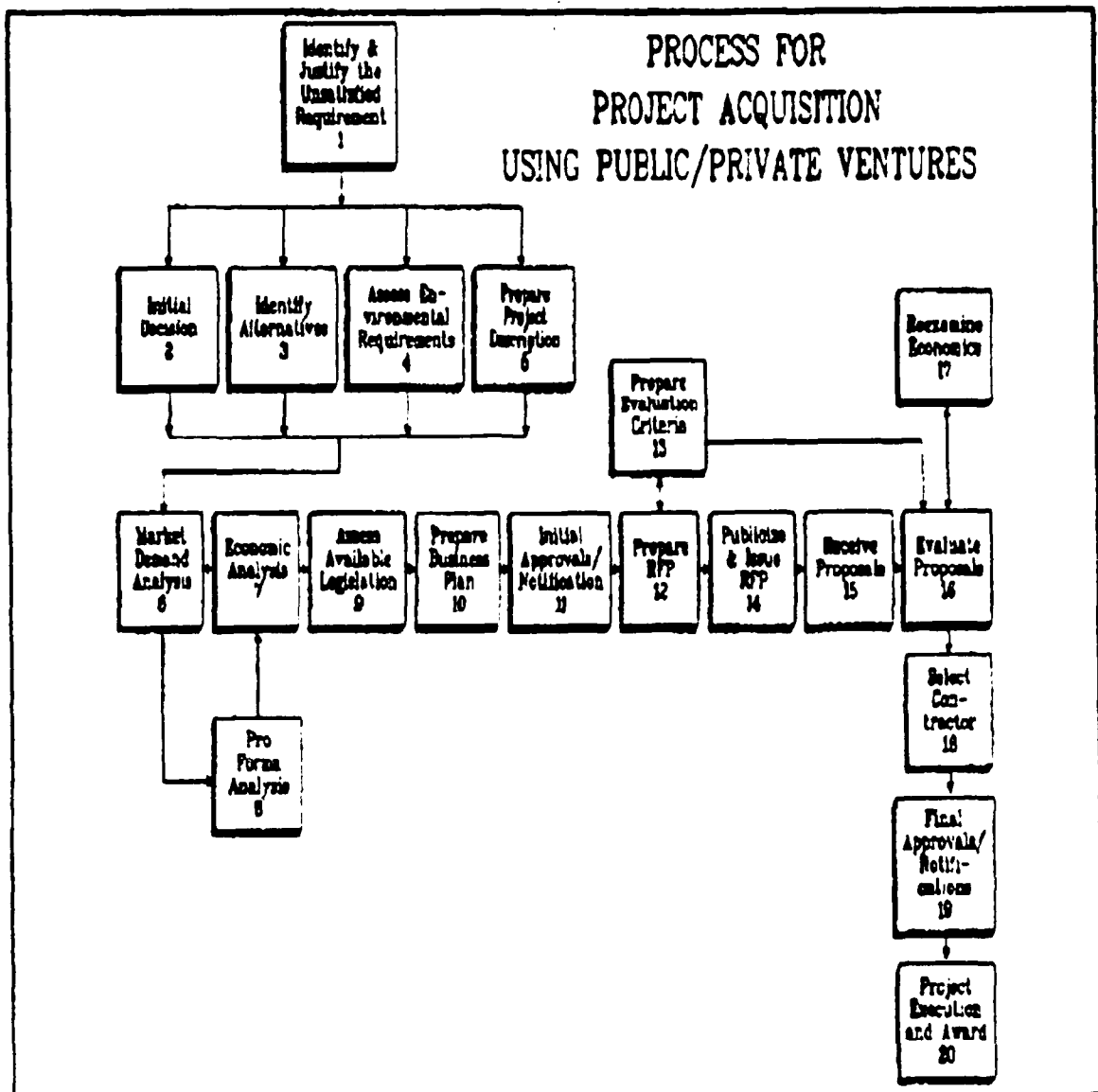


Figure 5-1

### 5.1 Project planning

The project planning process is the phase where the activity does the necessary research to determine exact need and what the big picture alternatives are. It also includes a description of the project that

results from this preliminary planning. The planning process is comprised by steps one through five in figure 5-1.

Step one in the planning process is to identify and justify the unsatisfied requirement. This can be derived from several sources but in the case of facilities in the Navy, the need is justified by a deficit in the Basic Facilities Requirement, (BFR), that each activity maintains. The BFR derives the facility requirement based on the function or mission of the activity and how many people are on board to do it. Other sources of identification of a need are on-site investigations, the Activities Master Plan / Facility Requirements Plan (FRP), activity records, Shore Facilities Planning System (SFPS) Base Loading Report, Mission Statements of all activities at the base, and special studies. Obviously some of the above sources overlap but the basic tenet is that the need has to be justified against a requirement of the activity. The need can also be anticipated based on master planning by higher echelons of command. An example could be when an activity on a base intends to significantly expand its need for transient housing due to a mission expansion or consolidation from another command. Based on this anticipated need, transient housing could be provided to coincide with the need.

Once the need is established, the existing assets of the activity need to be assessed to determine the adequacy to meet the need. After this assessment is done, then the information can be analyzed to determine the available alternatives for existing facilities as well as the need for new facilities. It can not be overemphasized that the proper documentation of the need is critical to the success of a project in the

Navy's process. The need must be quantifiable and long-term to go forward in the process.

Second step in the planning process is the initial decision of whether the project is a good candidate for a public/private venture. This decision will be based on market factors, siting factors, design/construction/management criteria, and miscellaneous considerations.

Market factors are an important consideration in deciding whether to pursue a privatization effort because if the market demand is not present, for whatever reason, the project will not get off the ground. These factors include the availability and cost of similar land, facilities, goods, and services off-base. An example could be in the transient bachelor housing where the off-base room rate and its seasonal variation are important factors.

The siting factor is also important because it can impact on the overall cost of the proposed facility, the ability to get the private sector interested in the project, and could also decide which legislative authority applies. Land is usually the critical part of a development and its value is based on location. Location is also critical for a commercial success.

Design, construction, and management criteria primarily relate to the standards to which the facility will be constructed. Designing to Military Construction standards is more expensive than designing to the local building code. The local building codes and industry standards also give the developer more flexibility. Because of these factors, the

function of the facility should be evaluated and the greatest flexibility should be given to the private developer so that he can make a reasonable return on his investment.

Miscellaneous considerations include the long-term impact on the activity's annual budget because the long-term obligations with the developer to pay for services reduces the discretionary amount in the budget. The community and local industry opposition to the project should also be considered. Coordination with the local community is critical because the project may impact the land use planning, utilities, and transportation of the surrounding area. Permits and inspections may also be required and would be difficult to obtain if the project was opposed.

The source of the government funding is also an issue because some programs like Military Construction (MCON), require Congressional approval while others can come from activity's annual operating funds. However, notification of the Congress is required by legislation before solicitation for any public/private venture. Another aspect of the funding source is that the fiscal budget of the Navy as well as the rest of government is very tight and funds pursued under normal programs may not be approved for several years. This is a reason why the public /private venture may save time in delivering a facility.

Security is a consideration both from an overall increased access of civilians to the base as well as the particular security needs of the facility being provided. The developer may be required to provide a

section of the facility constructed in accordance with increased security requirements.

Management or direct control of the service or facility by the Navy will also be a consideration. Flexibility of the operator can be quantified by the developer and the government gets more involved, the more difficult it will be for the developer to make a profit.

All of the above criteria give the activity an initial basis to decide whether to pursue a public/private venture for their project but they are not the final evaluation. With the information now at hand, the activity can decide between one of four main alternatives for their project and this is step number 3, identify the alternatives.

Identifying the alternatives deals with the choices of remaining with the status quo, entering into a commercial lease, pursuing a military construction or non-appropriated fund construction project, or attempting a public/private venture.

Staying with the status quo or the do nothing alternative is always the base line for the analysis. It is not necessarily a no action alternative because leases and contracts may have to be renewed to stay in the existing facilities. Renovations or replacing major equipment may also be a cost of staying with the present service.

Entering into a commercial lease for a facility is the second alternative and is generally intended for a short-term duration. It may be an desired option if the proposed facility can not be provided for several years and an interim location is needed.

Third choice is the traditional military construction or non-appropriated fund construction process. It is the path the majority of military projects take but from my personal experience, operational projects get priority and some activities have waited for twenty years for new administrative facilities. I do not think this is necessarily wrong but it is a fact of life. An example is the Naval Air Station in Jacksonville. Almost all of the administrative functions like public works, civilian personnel, and the recreation areas like the theater are World War Two vintage temporary structures while the operational aircraft hangers and jet engine repair buildings are state-of-the-art facilities.

The last alternative is a public/private venture. This may be a long term lease or concession contract for a facility or service where the government may or may not own the facility at the end of the agreement. Use of existing legislative authority is encouraged because obtaining special legislation can be very time consuming. Chapter three discussed the various alternatives that are possible for a public/private venture so I will not belabor them here.

Step four is to assess the environmental requirements of the project. "The National Environmental Policy Act (NEPA) and the Council on Environmental Quality (CEQ) implementing regulations require that an analysis of potential environmental impacts be conducted prior to the implementation of any major Federal action."<sup>11</sup> Since almost all of the projects will fall under this jurisdiction, compliance with the plethora of regulations is understood.

An initial analysis should be done in the planning stage. The objective is to identify potential environmental impacts and reasonable alternatives. The analysis should include the short term impact of the construction as well as the long term impact of operation of the facility. Early involvement of experts from the various supporting commands as well as the local community can save time and confusion in the approval process.

Preparation of a project description is step number five. This step is needed because it brings all of the planning information compiled to date on the project and puts it in one place. Included would be an accurate narrative description of the project which would define the scope and discuss the relative planning issues. Planning information would include size and location of the facility as well as the design standard to be used. This description of the project and supporting information will serve as the basis for all of the work done in the feasibility phase which follows the planning phase.

## 5.2 Feasibility Study

The second general phase of the process is the feasibility phase and it includes steps six through eleven shown in figure 5-1. This phase takes the established requirement and the assembled planning information and conducts a feasibility analysis to ascertain if the project is economically feasible. It should indicate the economic feasibility from both the government's and the private sector's perspective. The six steps involved are: market analysis, economic analysis, pro forma

analysis, assessment of available legislation, business plan development, and initial approvals and notifications.

Conducting a market analysis is the first step in the feasibility phase. Its purpose is to quantify the market demand for the service or facility being proposed. On some projects where the users will be entirely military, and analysis of the commercial demand may not be applicable. However, the projected usage should be quantified for the purpose of the economic analysis and the pro forma analysis. If there is projected usage above the Navy requirement, then it should be included in the computations because it might lower the price for the Navy.

The economic analysis is the next step and it compares life cycle costs of the various alternatives. The convention is to compare the net present value costs to the government. The guidance is contained in the Office of Management and Budget Circular A-104. Care must be taken to capture all of the costs of each alternative, particularly the overhead costs of the governmental functions and the contract inspection and management of a contracted venture. A rating of alternatives from least expensive to most expensive is the result of the economic analysis.

Pro forma analysis is not done in all cases but its purpose is to assess the financial feasibility of the project. It evaluates the profitability of the project for a private sector investor. Incorporated in this analysis are the results of the market analysis. Part of the analysis is the generation of an income and expense statement for the duration of the



contract and the price structure which the investor can judge his or her rate of return on investment.

Arguably the most important benefit of the pro forma analysis is that it allows the government personnel to get an idea of the risks that a developer takes for a given return. This information can influence how the solicitation is structured so that the risk is minimized, and competition is increased. Pro forma analyses can get very complicated if options are explored on the various components of the solicitation structure and the price structure. Personnel who perform the pro forma analysis should be knowledgeable of the private sector accounting and business practices. In some cases a consultant can be utilized to perform this function.

The next step is the assessment of available legislation. This is necessary to get the proper authority because there are various laws which are applicable to specific circumstances and have various limitations. These were discussed in chapter two. If the available legislation is not appropriate then special legislation can be pursued. This is time consuming and activities are advised to start at least eighteen months prior to the budget year with the request. Also the special legislation requires approval by the entire chain of command including the White House as well as Congress. Another aspect is that it is a political process and the local legislators need to be informed and in support of the project. This is another aspect of good relations with the local community helping the process because if the local community is petitioning for special legislation also there will be fewer delays.

Generation of the business plan is the next step in the feasibility process. It consolidates the description of the project, the requirement for the facility, the results of the pro forma analysis, and the least costly alternative from the economic analysis. The business plan is the working plan for executing the project and will reference the legislative authority. It is also the document that is forwarded up the chain of command for project approval.

The organization is flexible but a suggested organization starts with the project schedule. The responsibilities of the various parties is next. It is followed by the description of the project. The results of the feasibility analysis are next. Following are the legislative authority, execution plan, description of potential problems, and the completed DD 1391 form which shows the military construction scope and cost estimate. The military construction cost estimate allows the comparison of the chosen alternative with the conventional method of procuring the facility.

The last step in the feasibility phase is the initial approvals and notifications. At this point, all of the planning and analysis is complete and the package is forwarded up the chain of command for approval. The approval/notification process will vary with the type of project and the legislative authority used. When the approvals are received and the appropriate parties notified, the project is ready to advertise which starts the solicitation phase.

### 5.3 Solicitation

Project solicitation is the third major phase of the project development process and can be summarized as communicating the Navy's requirements to the marketplace, evaluating the proposals, and eventually making award to the proposal offering the greatest value to the Navy. In accordance with the Federal Acquisition Regulation and the Competition in Contracting Act, whatever type of procurement is used, selection and award should be based on free and open competition. The method generally used is competitive negotiations with source selection procedures. It is time consuming but allows more flexibility and interaction with the proposers. Competitive negotiation gives several advantages to the activity over sealed bidding. One is that it offers a flexible procurement process. The structure of the solicitation and the selection process can be arranged to return the best value to the Navy. It can also ensure a balanced appraisal of all of the significant functional items during the evaluation process. Source selection will be discussed in greater detail in the following paragraphs.

The solicitation phase includes steps twelve through twenty shown in figure 5-1. These steps are: prepare the request for proposals (RFP), prepare evaluation criteria, publicize and issue the request for proposals, receive proposals, evaluate proposals, reexamine economics, select contractor, receive final approvals and make required notifications, and finally award the contract.

Before the request for proposals can be prepared, the structure of the procurement must be formulated because it must be included in the

request for proposals to inform the contractors concerning the project's requirements, major milestones, and evaluation criteria. In the Navy, the document that describes the source selection procedures for the project is the source selection plan. This plan is prepared by the contracting officer with assistance from responsible program manager and technical staff. Specifically the source selection plan describes how the proposals are to be solicited and evaluated in the selection process. It also describes who will evaluate the proposals and how the negotiations will be conducted. Milestones for major events or requirements are also included focusing on the events after the proposals are received and the award of the contract.

"The objectives of the source selection plan are as follows:

To translate the procurement objectives outlined in the business plan into a specific approach for the soliciting and evaluating proposals.

To communicate this approach to the source selection authority as the recommendation of the contracting officer, Technical Evaluation Board (TEB) and Source Selection Board (SSB).

To serve as the charter for the source selection boards.

To provide essential guidance to writers of the request for proposals regarding what should be emphasized in the solicitation.

To describe the evaluation factors to be used, the relative importance of evaluation factors, and the methodology to be used by evaluators in evaluating proposals."<sup>12</sup>

The source selection plan is privileged government information and should not be released to anyone outside the project office. It is the gameplan for the acquisition and its early disclosure could impair fair and open competition.

The draft of the Navy's Public/Private Venture Guidebook gives a list of the common source selection milestones for public/private venture contracts. Its inclusion may assist those who are not familiar with the source selection process.

Source Selection Milestones For P/PV Contracts
1) Develop Source Selection Plan (SSP) and Request For Proposals (RFP)
2) Publicize the RFP
3) Issue RFP
4) Conduct pre-proposal conference
5) Amend RFP, if necessary
6) Receive technical proposals
7) Convene Technical Evaluation Board (TEB)
8) TEB report to the Source Selection Board (SSB)

9) SSB report to the Source Selection Authority (SSA)
10) SSA establishes the competitive range
11) Contracting officer issues discussion letters once SSA review is completed
12) Receive revised technical proposals from offerers
13) Convene TEB to review revised technical proposals
14) TEB reports to SSB
15) SSB reports to SSA with recommended ranking of proposals
16) Contracting officer requests Best and Final Offers (BAFOs)
17) SSB evaluates BAFOs and reports to SSA
18) SSA selects contractor for award.

Table 5-1

Several important points are worthy of note in the source selection process. The first one is that there are different groups evaluating the technical proposals and the best and final offers. Evaluation criteria is

published in the request for proposals and the various source selection boards are bound to evaluate the proposals in accordance with the criteria. The source selection authority is usually the Commander of the Naval Facilities Engineering Command Engineering Field Division exercising jurisdiction over that base. The whole process is designed to maximize free and open competition and retaining flexibility to confer with proposers if necessary.

Preparation of the request for proposals is the next step but most of the work can be accomplished concurrent with the source selection plan. There is a great deal of flexibility in the formation of a request for proposals but there are basic elements that should be included. The following items should be included:

- Executive Summary
- Statement of Work (SOW)
- Project Information
- Evaluation Criteria and Selection Process
- Inspection and Acceptance
- Instructions on Preparing Proposals.

The executive summary should describe the proposed project in an overview aspect citing key elements.

The statement of work is a description of the Navy's requirements. It describes in greater detail the type of facility or service being acquired

and delineates the working relationships between the parties to the contract. Also included would be the contract or lease terms including the duration, termination provisions, method of payment, and disposition of any land and facilities at the end of the contract.

Project information could include site information, utilities data, environmental documentation, base architectural plan, and a market analysis if applicable. Care should be taken to ensure that the data is for informational purposes only.

The evaluation criteria formulated in the source selection plan is incorporated into the request for proposals. The relative importance of each element is also given so that the contractors know where to put their best efforts. Selection criteria is also included and it serves to ensure an equitable process of selection if all the contractors know how the winner will be chosen.

Inspection and acceptance procedures by the government are described in the request for proposals because they have a direct effect on the cost of operation of the facility or service.

Instructions on preparing proposals is included to tell the contractor how, when, and where to submit proposals. A point of contact is usually stated with hours of operation for any questions that a contractor might have. The proposals are usually divided into technical and cost proposals. This section would tell the contractors how to split the proposal and when to submit each. The general intent is simplify the proposal process and minimize unnecessary costs in order to increase participation by the private sector.



Publicizing the request for proposals is the next step. Getting the project into the marketplace is critical to the amount of participation and therefore the level of competition. Public/private ventures are not the usual procurement and creative means must be used to get the project known. The normal means of advertisement are the Commerce Business Daily, paid advertisements in publications such as newspapers and magazines, local trade or industry associations, mass communication media, and special communications. Other avenues of spreading the word are trade or industry conventions, speaking at meetings or luncheons of interested groups; or if the local community is involved, letting their chamber of commerce help.

The advertisements will inform interested parties when the request for proposals will be issued and actually issuing them is the next step. This step is very important because it is the first communication with many of the proposers and care must be taken to be uniform in the response to questions. Sometimes a proposal conference is held to give the potential offerers a chance to ask questions or to clarify specific issues in the request for proposals. As a result, the request for proposals may have to be amended. Any amendments should go to all potential offerers. This ensures fair competition and serves to minimize protests of the award at a later date.

After the proposals are received, they are evaluated by the various groups assigned in accordance with the established criteria. The procedure is to first determine which proposals are acceptable. Then determine from the acceptable proposals received which one is most advantageous to the Navy considering the criteria set forth in the source

selection plan. The selection with all related documentation should be forwarded to the source selection authority. It should clearly state the contractor considered the winner and why.

At this point, the economic study should be revisited in light of the time elapsed and the proposals submitted. Any changed economic criteria such as interest rates or market conditions should be considered and their impact calculated. This second look is to ensure that the project is still viable economically and advantageous to the Navy.

The source selection authority will decide to make award based on all of the information forwarded by the source selection board.

The last step before award is to issue final notification to the Navy chain of command and Congress. The selected offerer and the economic criteria should be forwarded with the notifications.

Once all of the notifications have been made, award is made and a contract or lease is signed at the local level. It is normal process to notify the unsuccessful offerers in writing and because of the detail and effort involved in the proposals, many request a briefing about why they were unsuccessful. Care should be taken to discuss the proposal in comparison to the request for proposal and not the successful proposal. discussing the winning proposal with the unsuccessful offerers can lead to protests of award which will stop all contract action on the project.

#### 5.4 Project execution

Project execution is not shown in figure 5-1. Execution is after award and is the longest step. It includes the monitoring and

surveillance of construction, facility or service acceptance, monitoring and administering the functions during contract performance.

The government's interests must be protected and inspection of the construction must be done to ensure compliance with appropriate codes. This inspection and surveillance can be done by government personnel or local officials. Adequacy of the effort is judged by the contracting officer.

The facility or service when accepted has to comply with the contract requirements. Upon inspection and after satisfaction of the contract requirements, the contracting officer will accept the project for the government. At this point, the operational phase begins.

Monitoring and Administering the facility or service for the term of the contract is the final step. Monitoring has to be done to ensure compliance with the contract specifications. Monitoring can include health and fire inspections, compliance checks, and investigating customer complaints. Administering the contract can include executing modifications, correcting contractor deficiencies, and paying the government's obligations in a timely fashion. If the payments are escalating, the contract administrator should calculate the escalation and project it for future payments. The budget personnel should also be informed of escalations in future payments.

## CHAPTER SIX

### EVALUATION OF PERFORMANCE

Follow up evaluation of the public/private venture is just as important as any of the other phases. The primary reason is that as agents of the public's assets, there is an obligation to make sure the money is spent for needed facilities and services and that the money is not wasted. Further, it serves to verify the compliance with the contract and it provides a means of learning from past experiences.

The current situation in the Navy is that the privatization effort is fairly new concerning the public/private ventures and there are not very many of them around to check. The number of projects are increasing but success right now is getting a project approved through the system and awarded.

I did not find any specific program where public/private ventures are the focus of any specific inspections by the Inspector General. They can be investigated by the Inspector General or the Naval Audit Service if requested. They are subject to routine inspection as part of the system of command inspections that occur periodically or can be

audited by the Naval Audit Service if requested. For low risk ventures the frequency of inspection is a three to five year cycle. Low risk can be defined as a project that has minimal Navy assets involved. High risk ventures are inspected at intervals no greater than two years. As part of the command inspection, the public/private venture receives no special consideration or attention. The criteria for inspection is very general and consists mainly of compliance with the established guidelines and policies.

The Naval Audit Service has no particular expertise in public/private ventures but would look essentially at the same things that the command inspection would look at which is the general compliance with established policies and procedures. The audit service does have more experience in accounting methods but with the variety of types of projects, there is no baseline performance that can be used as a comparison.

Given the almost infinite variety of projects and each one having a different contract and market conditions, the only possible evaluation criteria are the criteria that were used to confirm that the project was economically feasible in the planning phase. Generally stated, these criteria were cost or efficiency and effectiveness.

Both of these were discussed in chapter four as criteria for selection of alternatives. Most of the same accounting principles will remain the same as in the planning phase but there are some specific items to look for on the performance evaluation.

## 6.1 Efficiency

Concerning the cost factor, care should be taken to use the same accounting methods that were originally used so that when new figures are generated, they can be readily compared to the original figures. Another pitfall to avoid on the inspection is to take extreme care to include all of the overhead and miscellaneous expenses that may be overlooked because they are paid out of other accounts. Most government functions start to build empires if not carefully watched. These extra costs also detract from any financial gains of privatization.

Cost analyzation can be completed using simple accounting methods and will give a good comparison if the hidden overhead costs are included and factors such as the current interest rate are used.

## 6.2 Effectiveness

Probably a little more difficult to quantify is the effectiveness of the facility of the service. Is the service or facility requirement being met? Have any existing functions had to change because of the private delivery of the service or facility?

When evaluating a service, it is fairly simple to count the pounds of refuse hauled away or the number of widgets delivered. Problems in the service area are more likely to be flexibility of delivery or quality of the service. For a new service, the baseline requirement is the contract specifications

When evaluating a facility, performance can be gauged by the improvement in the working environment, reliability of building mechanical systems and reduced utility bills. For some facilities such as a wastewater treatment plant, the measure of performance could be gallons treated and compliance with the effluent standards.

The particular evaluation points will vary with each project but they will all fall under the umbrella of cost or effectiveness.

## CHAPTER SEVEN

### CONCLUSIONS AND RECOMMENDATIONS

Allowing for the limited independent research and personal experience, I have drawn several conclusions from the documentation and conversations with key persons in the Navy's privatization efforts.

The first one is the belief that privatization is generally good for the Navy. It gives the facility manager another choice for the provision of facilities and services. In the environment of tight fiscal conditions, additional choices are extremely valuable.

Privatization does save money for the vast majority of functions. The clearest evidence to support this is a Pentagon study of 235 separate privatization competitions between 1980 and 1982. Follow-up studies indicated that competitive contracting saved 22%<sup>13</sup>. A side benefit was that the in-house organizations that won their competitions improved on their precompetition costs by 18%<sup>14</sup>.

Public/private ventures can save time over conventional methods of acquisition. This time savings can be as much as several years in some cases. This is clearly the case in facility acquisition for non-operational functions. They have a low priority in the military construction program in good budget conditions but have an extremely low probability for approval in the current tight budget conditions. This



is drawn from personal experience and backed up by the privatization literature published by the Navy.

The painstaking research and documentation effort required in the planning and approval phases ensures a very high probability of success. This could be a contributing factor in the lack of follow-up scrutiny of the projects.

Public/private ventures are subject to political pressures. A project may look great on paper and be the right action to take economically but if opposed by the labor forces or the local community, it may die before ever getting started. This is one of the strongest reasons besides being a good neighbor, that the base needs to get a consensus with the local community and industry to get a successful venture.

My recommendations would be to continue the privatization efforts and expand them if possible. I would hope that privatization would not be seen as a cure-all for the government's fiscal problems but made available as an alternative.

The acquisition guidance such as the source selection process should be continued also because it serves to ensure fair and open competition while allowing negotiation with the offerers but also keeps the program squeaky clean concerning fraud and political influence.

My last recommendation is that more front line facility managers, both civilian and military, be educated regarding the benefits of the public/private ventures and the acquisition process. Particularly, the

type of risks that developers face and the private sector documents and methods like market studies and pro forma analyses.

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